# Industrial Distribution

September 1984

Hotline:
Deflation/disinflation:
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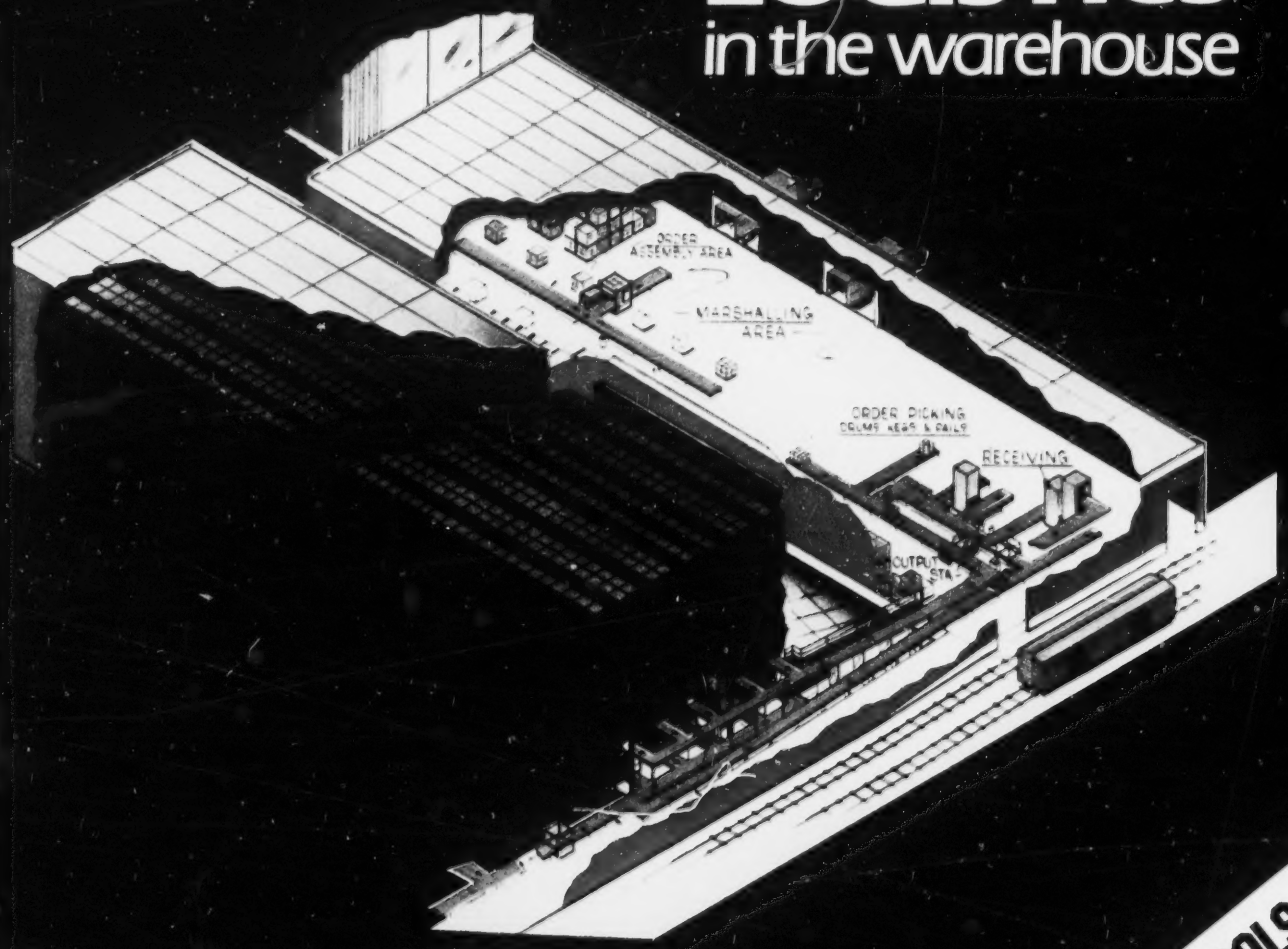
## LOGISTICS in the warehouse




## MECHANIC'S HAND TOOLS SHOWCASE

(PULL-OUT SECTION)

# Industrial Distribution

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Vol. 73 No. 9/73rd yr.
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Cover illustration: Litton Unit Handling Systems; Florence, KY

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# INDUSTRY NEWS...

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president and general manager of Mac Tools in March 1981 and group vice president, Hand Tools in November 1982.

At the same time, Davis announced that group vice president Richard F. Krug will succeed Ayers in responsibility for the Hand Tools Div. and will also have Hand Tools/Hardware, Germany.

Other group vice president realignments include Edward M. Butler adding Hardware, USA and Hardware, Canada to his supervision of the company's industrial divisions. David M. Hadlow will continue to be responsible for the Builders divisions while adding Drapery Hardware, Europe, Automatic Openers, USA, Automatic Openers, Canada and Multi-Elmac. □

## Hickey named *ID* New England sales manager

NEW YORK—William P. Hickey has been appointed New England regional sales manager for ***ID***. A 12-year veteran of distributor and industrial publication advertising sales in the New England area, Hickey is a graduate of Boston University with a degree in mass communications. He resides with his wife, Mary, and their two children in Cheshire, CT. □

Hickey

## Lovejoy names Michael W. Hennessy new CEO

DOWNERS GROVE, IL—Following the sudden death of C. Patrick Hennessy, president of Lovejoy Inc. for the past 20 years, the board of directors of the privately held 84-year old Illinois manufacturer of power transmission equipment, appointed Michael W. Hennessy as CEO of Lovejoy. He will continue to serve as president of Lovejoy Electronics, Inc., a position he has held since 1979.

At the same time, Lovejoy's board announced the appointment of John R. Wilkinson as president of Lovejoy. Mr. Wilkinson, the company's executive vice president since 1981, joined the firm in 1976 as director of marketing. He was named vice president in 1979. □

## Cost of industrial sales call tops $200

NEW YORK—According to the Laboratory of Advertising Performance/McGraw-Hill Research, which has been following the cost of an industrial sales call on a biennial basis since 1942, there is both bad news and good news about 1983.

The bad news is that last year, the cost of a

50% more reach
than any other 3-ton portable ratchet-lever hoist!
(ANOTHER LUG-ALL EXCLUSIVE)
This winch-hoist stores 15 foot of cable right on the drum for 50% more reach (7½ ft) than comparable chain hoists. Another LUG-ALL exclusive, the telescopic handle, with shear pin warning . . . adds extra safety and convenience. Also available in corrosion-resistant marine grade.
OTHER LUG-ALL MODELS:
1001 APPLICATIONS
Model 6000-15-SH
CORPORATION
Write in No. 11

# INDUSTRY NEWS...

## Indicators . . .

Industry economic indicators were mixed this month as the *NIDA-SIDA Industrial Distribution Index* declined slightly in June to 133.1, a fall of 1.3% from May. On the other hand, the June figure represents the second best month for the index out of the last 26. Regionally, only the south registered a gain over May with the west the biggest loser, posting a 5.3% decline . . . *the SIDA Monthly Sales Trend Report* for May provided additional southern gains climbing 6.53 over April, an impressive 19.60 increase over May 1983. The big winner was SIDA area 2 comprising FL, GA, SC and Puerto Rico which showed a 13.06 gain over May. The only loss was in area 3 which includes AL, KY, MS and TN which registered a 3.36 decline. Year-to-date '84 compared with year-to-date '83 indicates a strong 18.97 improvement . . . the *ASM-MA New Order Index* also registered a gain of 6.6 in May over April reaching 122.7, the highest level since September 1981 when the Index stood at 125.0 . . . According to the Associated Equipment Distributors, its *Market Trends Index* reported 28% higher gross dollar volume in the first quarter of '84 vs '83. The organization which represents distributors in the construction equipment industry reports that March gross sales were up 26% over March '83 and 21% better than February of this year . . . The National Tooling & Machining Assn. *Business Forecast Report* says several lagging industries: construction, oil field and farm equipment, commercial, private and business aviation continue to suffer their own "sales drought" . . . the National Wholesale Hardware Assn. says that retail hardware sales reached the "sizzling" point in May with average daily sales 5.6% higher than April and 8.7% higher than May 1983. NWHA's *Hardware Sales Index* jumped to 115.1 for May, the second highest reading in 1984 and a full 9.2 points higher than May '83. Broken down by region, results were uneven with four areas: the West, Southwest, East Central and Southeast showing declines from April while the Plains States, Great Lakes and Northeast showed gains.

sales call—defined by McGraw-Hill as including salaries, commissions, bonuses, travel and entertainment expenses—rose to $205.40, the highest level since the survey was started and a 2177% increase over the fabled figure of $9.02 when the study started 41 years ago.

The good news is that the rate of increase from 1981 to 1983 was 15.4%, the lowest percentage increase in the last decade.

The survey also found that costs were highest when the companies sold directly to industry as opposed to going through distributors. In fact the cost of an average sales call dropped from $233.70 when made directly to industry to $188.20 when made to distributors, agents or dealers.

The study found a positive correlation between the size of a company's sales force and the cost per sale. Significantly, companies with a sales force under 10 persons had a cost per call nearly twice that of companies with a sales force numbering more than 100. McGraw-Hill does not attempt to explain these statistical phenomena. □

| | 1981 | | 1983 | |
|---|---|---|---|---|
| **Selling Method** | **No. of Companies** | **Cost of Sales Call (Average)** | **No. of Companies** | **Cost of Sales Call (Average)** |
| Directly to Industry | 152 | $225.20 | 195 | $233.70 |
| Through Distributors, Agents or Dealers | 131 | $138.80 | 183 | $188.20 |
| Both | 319 | $172.00 | 435 | $200.00 |
| Method of Distribution Not Reported | 3 | $142.30 | — | — |

**Source: Laboratory of Advertising Performance/McGraw-Hill Research**

## Lamson & Sessions announces new CEO, second quarter gain

CLEVELAND, OH—The Lamson & Sessions Co., following its annual and special shareholders meeting on June 28, announced a debt restructuring and recapitalization program and the appointment of Russell Every to the post of CEO of the company.

Shareholders of the 100-year old manufacturer of industrial and foundry products, aircraft and truck components and freight car equipment, approved the company's plan to issue $12 million of new convertible preferred stock to its insurance and bank lenders in exchange for a like amount of interim, restructured debt. The new stock carries a 5% cumulative dividend beginning in 1986 payable in cash or the company's

[continued on page 16]

**Correction:**

## 38th Annual Survey of Distributor Operations

NEW YORK—The final manual triple check made on this computer-generated survey, this year failed to catch misplacement of a decimal point in the net profit categories. The figures are correct when the decimal point is moved one digit to the left. The corrected figures appear below.

| | National | | Northeast | |
|---|---|---|---|---|
| | '83 | '82 | '83 | '82 |
| Net profit before tax (% of total sales) | 2.2% | 2.0% | 2.2% | 2.0% |
| Net profit after tax (% of total sales) | 1.6% | 1.65% | 1.65% | 1.1% |

| | South Atlantic | | North Central | |
|---|---|---|---|---|
| | '83 | '82 | '83 | '82 |
| Net profit before tax (% of total sales) | 2.5% | 2.0% | 2.0% | 2.0% |
| Net profit after tax (% of total sales) | 1.8% | 1.65% | 1.2% | 1.0% |

| | South Central | | West | |
|---|---|---|---|---|
| | '83 | '82 | '83 | '82 |
| Net profit before tax (% of total sales) | 2.8% | 3.5% | 2.6% | 1.5% |
| Net profit after tax (% of total sales) | 2.45% | 2.35% | 1.8% | 1.1% |

# REGIONAL REPORT

# Sales slacken in June

After advancing to a near-record recovery high in May, sales backed off in June, showing a gain of 20% compared to June '83, and down eight percentage points from the 28% rise recorded in yearly May comparisons.

Other national figures reveal continued strong gains for New England, Middle Atlantic, East North Central and Pacific regions. The South Atlantic was weak, gaining only 8% in June compared to May's rise of 24%. The West North Central was in the minus column, down 5%.

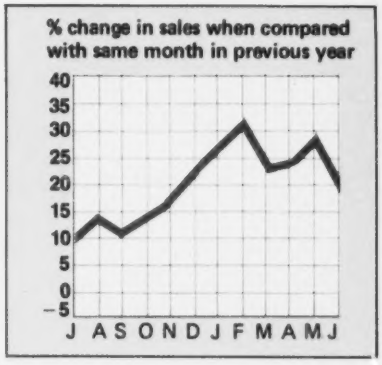
Month-to-month figures for those regions reporting are mostly lower compared to May, with the majority showing minuses. West North Central indicates a 15% drop for June sales, compared to May's, with New England, South Atlantic, East North Central and Pacific all negative.

In cumulative reporting, the first six months of '84 compared to '83 indicate all double digit gains for regions and areas with the exception of Georgia-Florida, up 9%. However, the 24% gain nationally is flat compared with the 25% gain recorded in May. This tends to confirm what the other figures indicate, that June was a relatively soft business month for industrial distributors compared to the strong recent gains registered by the industry.

Receivables continue in the low-forties for most of the country, with the South Atlantic showing the best figures, in the mid-thirty area. On average, New England and the Middle Atlantic are highest, in the mid-forties. □

| RECEIVABLES* | June '84 Gen. | June '84 Spec. | June '83 Gen. | June '83 Spec. |
|---|---|---|---|---|
| New England | 38 | 53 | 39 | 51 |
| Middle Atlantic | 47 | 45 | 43 | 46 |
| South Atlantic | 34 | 34 | 34 | 34 |
| East North Central | 39 | 47 | 37 | 45 |
| East South Central | — | — | — | — |
| West North Central | — | 38 | — | 39 |
| West South Central | — | 38 | — | 44 |
| Mountain | — | — | — | — |
| Pacific | 47 | 42 | 47 | 40 |
| National | 41 | 42 | 40 | 43 |

*Average days outstanding




Sales gains pared in June . . .

| SALES BY REGIONS (% change) | June '84 vs May '84 Gen. | Spec. | Both | June '84 vs June '83 Gen. | Spec. | Both | 1st 6 mos. '84 vs 1st 6 mos. '83 Gen. | Spec. | Both |
|---|---|---|---|---|---|---|---|---|---|
| **NEW ENGLAND:** CT, RI, MA, NH, VT, ME | −5 | +4 | −1 | +15 | +17 | +16 | +17 | +17 | +17 |
| Connecticut | — | — | — | — | — | — | — | — | — |
| Massachusetts | −6 | — | — | +13 | — | — | +16 | — | — |
| **MIDDLE ATLANTIC:** NY, NJ, PA | −1 | 0 | 0 | +10 | +30 | +21 | +15 | +30 | +23 |
| New York Metropolitan Area | — | — | — | — | — | — | — | — | — |
| Upstate New York | +5 | −9 | −3 | +23 | +12 | +17 | +21 | +33 | +27 |
| Pennsylvania | +12 | −2 | +3 | +7 | +25 | +17 | +15 | +28 | +23 |
| **SOUTH ATLANTIC:** DE, DC, MD, FL, GA, NC, | −9 | −7 | −8 | +11 | +5 | +8 | +23 | +7 | +15 |
| SC, VA, WV | — | — | — | — | — | — | — | — | — |
| Georgia-Florida | +15 | −3 | 0 | +21 | +12 | +13 | +25 | +5 | +9 |
| **EAST NORTH CENTRAL:** OH, IN, IL, MI, WI | −7 | +1 | −3 | +22 | +36 | +29 | +30 | +35 | +32 |
| Indiana | — | — | +16 | — | — | +9 | — | — | +12 |
| Wisconsin | −10 | −5 | −6 | +5 | +37 | +29 | — | — | — |
| Chicago | — | — | — | — | — | — | — | — | — |
| Michigan | −17 | +7 | −8 | +11 | — | — | +24 | — | — |
| Ohio | −2 | +6 | +2 | +28 | +33 | +30 | +29 | +27 | +28 |
| **EAST SOUTH CENTRAL:** AL, MS, KY, TN | — | — | — | — | — | — | — | — | — |
| **WEST NORTH CENTRAL:** MN, ND, SD, IA, NE, KS, MO | +1 | −17 | −15 | −24 | −2 | −5 | −5 | +21 | +17 |
| **WEST SOUTH CENTRAL:** AK, LA, OK, TX | — | — | — | — | — | — | — | — | — |
| Texas | — | — | — | — | — | — | — | — | — |
| **MOUNTAIN:** NM, AZ, CO, UT, NV, WY, MT, ID | — | — | — | — | — | — | — | — | — |
| **PACIFIC:** CA, OR, WA | −6 | +1 | −4 | +20 | +24 | +22 | +22 | +30 | +24 |
| L.A.-San Diego | — | — | — | — | — | — | — | — | — |
| Oregon-Washington | −3 | +1 | 0 | +16 | +20 | +18 | +20 | +16 | +17 |
| **U.S. TOTALS** | −6 | −2 | −4 | +17 | +23 | +20 | +23 | +26 | +24 |

# THE MARKET: PROFIT AND POTENTIAL

Talks with manufacturers indicate that many distributors and major buyers of hand tools regard them as commodities, putting them in a class with fasteners, drills and any number of other mass-produced, low-cost-per-unit, distributor-sold items. A closer look at industrial-grade hand tools, some of which sell for $40 or $50 or more or as low as a few dollars proves that while they may be labeled commodities by some, they are hardly conventional types. The only thing they may have in common with real commodities such as fasteners is that so many are used for so many functions across so many markets.

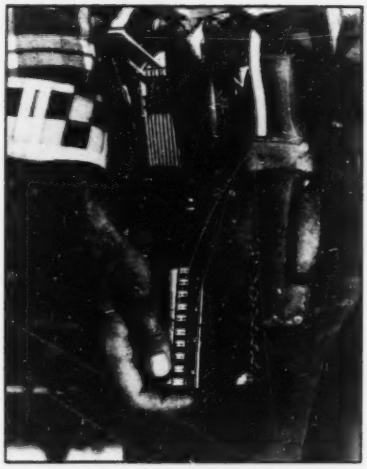
The market for quality hand tools is about as broad as the choice of products being produced for today's changing market needs. Distributors report rising hand tool sales ranging from single impulse purchases off of a pegboard display to single shipments totalling thousands of dollars.

Reporting on sale of hand tools in the three most common "quality" categories—consumer, automotive and industrial—Hand Tools Institute representing some six dozen major U.S. producers shows total sales of tools by domestic manufacturers from 1978 through 1982 averaging $1.2 billion annually. Imports, a fast-growing factor in the U.S. market, increased 42% from 1978 to 1981, peaking to just over $419 million in 1981, declining 4% the following year to just under $404 million.

In 1978, prior to the recent recession, ***ID*** reported: "With hand tools going anywhere from $1 to $10 (the prices have changed since then), and considering their popularity, the U.S. market has already topped $2 billion (imports included) and real annual growth, over and above inflation, is a healthy 3%-5% annually."

Onset of the recession didn't affect domestic producers' sales of hand tools until 1982. Sales between 1978 and 1981 continued to increase, then hit by a serious decline in demand, dropped 11% and in 1982, producers' net profits plummeted 19%.

**Potential.** The industrial grade of hand tools, in effect, the top of the line, is a non-stop best seller because no matter what the state of the economy and as long as machines and other physical assets are being maintained, as long as some production exists, as long as machinery somewhere is in action, mechanics' tools have to be very much in evidence. The fact is, even during a deep recession, tool sales remained relatively high compared to declines in sales of power tools and other common distributor-sold products, one reason some manufacturers dub them the most recession-proof item in the distributor's inventory.



An educated guess would put the total number of *standard* types and sizes of professional hand tools at around 5000. There is literally a hand tool for every common type of job as well as special jobs such as those performed by electricians, linemen, sheet metal and aviation mechanics. Typically, one manufacturer's catalog lists 40 different side-cutting pliers; another's catalog lists some 250 different screwdrivers, including bits and sets. Still another tool manufacturer's catalog offers 120 open end wrenches in a variety of sizes and finishes. Add also the fact that hand tool manufacturers are fully prepared to design and manufacture specials.

What this all proves, of course, is that a line of quality hand tools designed specifically for the mechanic on the job can be the distributor's king of door-openers and repeat sales producers. True, not all plants or other installations buy hand tools in quantities large enough to rocket year-end sales figures into the stratosphere, but in terms of consistent turnover, nothing in a distributor's inventory has the potential of his professional hand tool line. And because no mechanic anywhere on the job is not without a sizable complement of quality tools on hand, every distributor, including those who specialize, needs to maintain a rounded-out inventory of hand tools related to other products he stocks and sells.

**Large orders.** Probably the one advantage hand tools have in being labeled commodities is that despite their cost-per-unit compared to, say, a single fastener, they are often sold in quantities to a single customer. Not long ago, several distributors shared a tool order topping $250,000 when a call was put out to the manufacturer that an emergency had occurred offshore and the tools were needed immediately.

Such cases are not rare. Other manufacturers report large quantity one-shot sales by their distributors. In one case, the distributor had to deliver a large order to managers who had taken over operations during a strike. In another case, flood damage repairs generated a large order for pipe and other types of tools.

Other large one-shot tool orders are from more conventional sources: a plant modernization, revamping of an assembly line, a construction project, a new plant, retooling, rehiring, a new timesaving tool, expansion of a servicing department or organization, a special tool deal. And in most cases, whether the tool manufacturer or the distributor gets the original lead, these sales are finalized by the distributor. Except in a few rare cases, manufacturers of quality, industrial-grade hand tools, sell their product only through their distributors.

Any large installation that includes a building, equipment, assembly, an outside service operation or produces a reasonably complex product (computer hardware, appliances, autos, etc.), is a prospect for large orders. Some require bids but most opt for sources that provide what one manufacturer calls his "profit package." It includes a complete job-matched line of hand tools, the inventory, service which might include some technical support, and price. Surprisingly, price may not even enter the picture since reliability of the

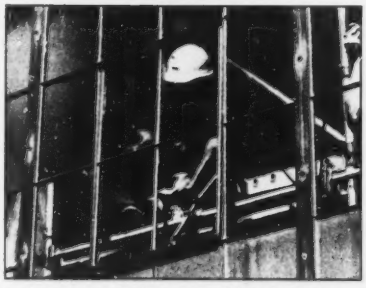
# THE MARKET: PROFIT AND POTENTIAL...

tool source and the tool itself is regarded as the final test. One buyer of capital equipment with a multi-million dollar annual budget was cited as "throwing" all of his hand tool business to a local distributor "just to get it off my hands."

Big orders are common enough. An East Coast utility spends between $1.5 million and $2 million annually on hand and power tools with the bulk of the purchases on the former. One computer hardware manufacturer consistently spends well over $750,000 a year on hand tools, many of them small tools used in assembly. Several manufacturers told ***ID*** that, today, among the largest users of hand tools are the high-tech companies. One cited the companies in California's Silicon Valley and the high-tech producers spaced along Rte 128, the "electronic belt" circling Boston. Cited also were companies such as Otis Elevator, IBM, Digital Equipment, telecommunications companies, utilities and others that employ large indoor maintenance staffs and equally large outdoor service and installation crews. One service van alone can hold several thousand dollars worth of tools. "They're all million-dollar-plus hand tool buyers," the manufacturer told ***ID***.

**Other orders.** Should small orders be ignored? It's very possible that total hand tool sales through distributors in the U.S. are dominated mainly by sales of a dozen tools or less. Many are bought on impulse as a result of direct mail, a tool seen in the distributor's catalog, a tool bought off the pegboard display in the counter and pick-up area, or for replacement. A trip through the plant by a distributor's salesman may sell one tool here, two or three tools there, all to individuals. If every other order from customers included one, two or several hand tools, the profit would be significant by the end of the year.

Why sell hand tools? Briefly, because (1) they're consistently best sellers, (2) they complement and round out even the most specialized inventories, (3) they are proved door openers to PA's and to repeat orders, (4) with a quality line, they establish an image of credibility and reliability for the distributor and the manufacturer. The trick of course is for the distributor to recognize their potential, commit to a market-matched inventory, learn to merchandise them properly, and use them to "pry" open doors to the buying influences and to larger orders.



**Indoors or outdoors, no blue-collar operation is without a set of hand tools.**

**High-tech.** The exploding high-tech market is one distributors of hand tools need to watch very closely because it represents unlimited profit potential for the distributor. Miniaturization combined with extremely high standards of accuracy are generating demands for new types of fasteners, production machinery and, of course, workholders and hand tools.

Some distributors are already deeply involved in the new market. Some are reported to be making small fortunes on customized sets and kits of hand tools and workholders for delicate, miniaturized high-tech components. Others are helping design and are supplying special hand tools for high-tech assembly.

High-tech profit potential for the distributor goes further than electronic assembly. Advances in the industrial sciences are churning out new families of products requiring new families of tools. One manufacturer responded recently to development of an ultra-thin-walled pipe by designing a new type of cutting and forming tool. Other new materials and product designs will also require special tools.

"Don't expect a revolution in the kinds of hand tools the distributor will have to carry," a manufacturer told ***ID***. "I'd say that most of the tools we'll ever need are already on the market. What you'll probably see are subtle changes in tool design. But these changes are important because they can make the difference between your cutting a niche in a high-tech market or being left out altogether. □

**THE USES:**

- installations
- equipment maintenance
- building services
- equipment adjustments
- assembly
- production
- machine setup
- tool & diemaking
- outdoor services
- authorized repairs
- field services
- general shopwork
- construction
- municipal services

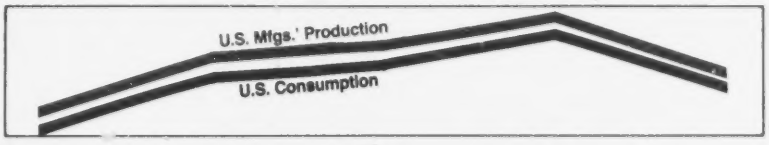
**'BIG' HAND TOOL USERS**

- high-tech assemblers
- high-volume plants
- utilities
- mines/oil rigs
- constructors
- processing plants
- building services
- local/Federal agencies
- equipment builders

## National Consumption of Hand Tools by Industry

| SIC | Description | No. of plants | Estimated use (million $) | Total employment | Consumption per employee ($) |
|---|---|---|---|---|---|
| 1541 | Ind'l bldgs and whses | 1612 | 18.1 | 178,554 | 101.58 |
| 1542 | Non residential const | 2006 | 16.0 | 215,769 | 74.01 |
| 1611 | Hwys and street const | 1992 | 17.6 | 189,927 | 92.49 |
| 1622 | Bridge, tunnel, elev hwy const | 413 | 7.8 | 58,060 | 134.19 |
| 1623 | Water, sewer, util lines | 1172 | 10.5 | 88,080 | 119.00 |
| 1629 | Heavy const | 1326 | 31.2 | 284,127 | 109.82 |
| 1711 | Plmbg, htng, air cond | 2807 | 21.3 | 148,674 | 143.34 |
| 1731 | Electrical work | 2130 | 14.4 | 114,553 | 125.39 |
| 2211 | Weaving mills, cotton | 386 | 11.2 | 153,775 | 73.02 |
| 2421 | Sawmills, planing mills | 1958 | 9.3 | 153,229 | 60.82 |
| 2431 | Millwork | 1218 | 7.5 | 84,500 | 88.18 |
| 2511 | Wood household furn | 897 | 17.5 | 124,134 | 140.63 |
| 2512 | Upholstered h'hold furn | 828 | 9.1 | 87,716 | 103.85 |
| 2621 | Paper mills (ex bldg paper) | 343 | 14.6 | 138,946 | 104.94 |
| 2631 | Paperboard mills | 203 | 7.0 | 61,411 | 112.88 |
| 2819 | Ind'l, inorganic chem | 599 | 6.7 | 98,503 | 67.74 |
| 2821 | Plastics, mater, resins | 484 | 6.1 | 89,330 | 68.15 |
| 2869 | Ind'l organic chem | 526 | 8.0 | 110,692 | 72.59 |
| 2911 | Petroleum refining | 356 | 6.9 | 93,576 | 73.41 |
| 3312 | Blast furn, steel mills | 357 | 10.7 | 344,757 | 31.08 |
| 3622 | Industrial controls | 487 | 8.0 | 76,430 | 105.13 |
| 3731 | Shipbldg and repair | 355 | 11.1 | 153,602 | 72.14 |

**Source:** Excerpted from *NIDA/SIDA Sales Potential System*
(Based on companies with 20 or more employees)

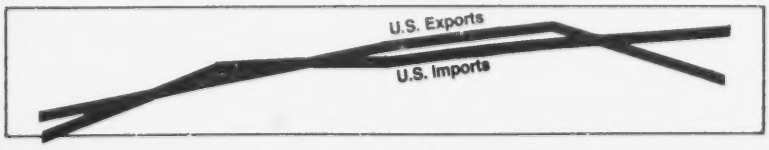



## Estimated U.S. consumption of nonpowered hand tools (1978-1982)

(in millions of $)

| | U.S. manufacturers' domestic production | U.S. exports | U.S. imports | Apparent U.S. consumption |
|---|---|---|---|---|
| 1978 | 2756 | 313 | 296 | 2739 |
| 1979 | 3213 | 349 | 353 | 3218 |
| 1980 | 3275 | 406 | 367 | 3236 |
| 1981 | 3511 | 436 | 419 | 3494 |
| 1982 | 3024 | 345 | 404 | 3084 |

**Source:** U.S. Dept. of Commerce and Business Trend Analysts

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